# LEGISLATIVE SERVICES AGENCY

## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

## FISCAL IMPACT STATEMENT

**LS 6661** | **NOTE PREPARED:** Apr 8, 2013
**BILL NUMBER:** HB 1116 | **BILL AMENDED:** Apr 2, 2013

**SUBJECT:** Property taxes.

**FIRST AUTHOR:** Rep. Leonard | **BILL STATUS:** As Passed Senate
**FIRST SPONSOR:** Sen. Head

**FUNDS AFFECTED:** X **GENERAL** | **IMPACT:** State & Local
**DEDICATED**
**FEDERAL**

**Summary of Legislation:** (Amended) This bill makes numerous changes concerning the administration of property taxes.

*Township Fire*: The bill authorizes townships to petition the Department of Local Government Finance (DLGF) in 2013 for permission to increase the township levy by the amount borrowed in 2012 or 2013 for emergency fire loans. It requires the DLGF to grant permission for the levy increase. It also removes an obsolete provision under which the DLGF had discretion to approve similar levy increases.

The bill provides that if a township receives such a maximum levy increase in 2014 based on a fire emergency loan:
(1) the township is limited in the amount of property taxes it may impose to:
(A) in 2014, 3/4 of the amount borrowed in 2013;
(B) in 2015, 1/3 of the amount borrowed in 2014; and
(C) in 2016, 1/3 of the amount borrowed in 2015; and
(2) the township may incur an emergency fire loan in 2014 through 2016, limited to 1/2 of the amount borrowed in the previous year. It prohibits emergency fire loans for such a township after 2016.

*Controlled Projects*: The bill specifies that any school building for academic instruction is: (1) subject to the petition and remonstrance process if the cost of the project is less than or equal to $10,000,000; or (2) subject to the referendum process if the cost of the project is more than $10,000,000. (Under current law the threshold is $10,000,000 for elementary and middle school buildings and $20,000,000 for high school buildings.)

The bill also provides that in determining whether a local government capital project is a controlled project and whether the petition and remonstrance process or the referendum process apply to the capital project, the cost of the capital project does not include expenditures for the capital project that will be paid from donations or other gifts.

*Assessor Omissions*: The bill permits an owner to pay property taxes attributable to changes in assessment of the owner's property over the same number of years that corresponds to any delay in assessment of the owner's property if the owner complied with the applicable statutes concerning filing an assessment registration notice or obtaining permits for the changes to the real property.

*Redevelopment Commission Reporting*: This bill requires redevelopment commissions to submit reports to the appropriate fiscal body regarding tax increment financing areas. It requires the fiscal body to provide the same information to the DLGF.

*Library Study*: The bill requires the Commission on State Tax and Financing Policy to study the circumstances in which an elected fiscal body should review the budget and property tax levy of an appointed public library board and library district border changes.

**Effective Date:** July 1, 2013.

**Explanation of State Expenditures:** *Reassessment Levy*: Under current law, counties must impose a property tax levy to fund the real property reassessment process. The DLGF must give notice to each county regarding the required levy for the reassessment fund each year. The DLGF may currently raise or lower the levy amount as the Department deems appropriate. Under this provision, the determination of the reassessment fund levy would be left to the county. The DLGF would have reduced administrative duties under this provision.

*Local Budget Hearings*: Under current law, the DLGF must hold a public hearing on each taxing unit's budget, levy, and tax rate. The hearings are held in the county in which the taxing unit is located. Under this provision, the DLGF would not be required to hold a budget hearing for a taxing unit unless at least one taxpayer requests that the hearing be held. Taxpayers may make their request on paper or electronically, and may send it through the county auditor or directly to the DLGF.

There are currently around 2,600 taxing units in the state. The DLGF would realize a savings of travel and publication expenses. There would also be a savings of employee hours that are currently devoted to hearings with no attendees. Actual savings would depend on the number of taxing units for which a hearing is not requested.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Circuit Breaker Reports*: This provision conforms to the reporting changes made in HEA 1072 (2012). Under current law, the county auditor must notify each taxing unit in the county of the amount of property tax collections lost to the tax caps. However, HEA 1072 (2012) shifted the responsibility to prepare the circuit breaker loss report from the county auditors to the DLGF. Under current law, the DLGF must post this report on its website. Under this bill, county auditors would no longer have these reporting requirements.

*Government Modernization*: This provision could increase local expenditures by an indeterminable amount for the preparation of a fiscal impact statement in cases where reorganization committees choose, under current law, not to prepare a fiscal impact statement.

Under the current government modernization law, a reorganization committee must prepare a reorganization plan. The plan must include a statement regarding whether or not a fiscal impact analysis has been prepared and whether or not it is publicly available.

Under this provision, the committee would be required to prepare a fiscal impact analysis. The analysis would have to include (1) cost estimates for planned services, (2) anticipated net assessed value and funds affected by tax area, (3) financing methods for planned services, (4) estimates of maximum permissible levies, budgets, and tax rates, (5) the plan for reorganization and extension of services to areas being reorganized, and (6) the plan for providing or continuing services in areas not being reorganized.

*Redevelopment Commission Reporting*: This bill would require the redevelopment commissions to submit a report to the fiscal body of the taxing unit before August 1 of each year. The report would have to include previous year information for each TIF district including revenues received, expenses paid, fund balances, bond balances and maturity dates, the amount paid on obligations, and a list of all parcels in the allocation area including the base AV and incremental AV of each parcel. Before October 1 of each year, the fiscal body would have to compile the reports for each TIF district and submit a comprehensive report to the DLGF.

The redevelopment commissions and taxing units could incur some additional administrative expense in completing the reports.

Additional Information: Under current law, redevelopment commissions are annually required to file a report within 30 days of year-end on the previous year's activities with the taxing unit executive. The current report contains information on employees, salaries, TIF revenues expended as grants or loans and year-end cash balances. The report must be forwarded to the DLGF.

**Explanation of Local Revenues:** (Revised) *Township Fire*: Under this bill, townships may petition the DLGF in 2013 for an increase in the township fire maximum levy if the township had an emergency fire loan in 2012 or 2013. The levy increase would be limited to the amount borrowed in either 2012 or 2013 and would first apply to taxes payable in 2014.

Townships that would qualify for a maximum levy increase under this bill borrowed operating funds in 2012 or 2013 and consequently will impose debt service levies in the following year. If a township has a recurring need to borrow operating funds then the maximum levy increase allowed by this bill would not represent an increase in the township's overall property tax levy. For these townships, the increase in the fire fund levy under this bill would take the place of the debt service levy.

In 2013, twenty-nine townships levied $15 M to pay back emergency fire loans from 2012. If the 2013 emergency loan experience is similar to 2012, then townships could ask for up to $15 M in increased fire protection maximum levies.

Additionally, this bill would permit the affected townships to borrow money in 2014, 2015, and 2016 to stretch out the repayment of the 2013 emergency fire loan. The amount borrowed in each of those years would be limited to one-half of the amount borrowed in the previous year. The affected townships would then be permitted to increase their levy in excess of the maximum levy in those same years in order to repay those loans.

*Cumulative Funds*: Under current law, cumulative funds are rate-controlled. Each fund has a maximum tax rate which is adjusted each year to eliminate the effects of a general reassessment or annual adjustment. This provision makes changes to the adjustment formula to better conform to the enactment of cyclical reassessments in SEA 19 (2012).

*Controlled Projects*: This provision would change the cost threshold at which all types of school buildings would be subject to the referendum process. Additionally, any part of the project's cost that will be paid from dedicated gifts and donations would not be considered when comparing the estimated cost to the threshold. These provisions would have varying effects by project as the new threshold would be either the same as or less than the current threshold depending on the building type.

Under current law, a capital project is considered a controlled project if it will cost the taxing unit more than the lesser of (1) $2 M or (2) an amount equal to 1% of the unit's total gross AV (if that amount is at least $1 M).

Currently, a controlled project for a school building for kindergarten through Grade 8 is subject to a referendum if the cost is more than $10 M. A controlled project for a school building for Grade 9 through Grade 12 is subject to a referendum if the cost is more than $20 M. Other controlled projects with a cost that exceeds the lesser of (1) $12 M or (2) 1% of AV (if that amount is at least $1 M) are also subject to a referendum. In addition, a taxing unit may specify that the public question process applies even if the project is not a controlled project.

Under the bill, a project for any type of school building would be subject to referendum if the cost would exceed $10 M. This change represents a $10 M decrease in the threshold for grade 9 through 12 buildings, no change in the threshold for kindergarten through grade 8 buildings, and a $2 M decrease in the threshold for all other school buildings.

*Emergency Fire Loans*: This provision could reduce the amount of emergency fire loans and the property tax levies to repay them in cases where the loans are frequently sought.

Under current law, a township board may authorize the trustee to borrow money to meet unfunded needs for fire and emergency services. Emergency fire loans are repaid from proceeds of a special levy imposed in the following year. This bill would limit emergency borrowing to three years within any five year period.

*Assessor Omissions*: This provision would spread property tax payments out over multiple years in cases where property taxes are billed for retroactive assessment changes due to structural changes in prior years. The payments would be made over the same number of years as the number of years covered in the billing. This provision would apply only if the property owner complied with all notice and permit requirements for the structural change.

<u>Background</u>: In some counties, when a real property assessment omission by the assessing official is discovered, the assessments for prior years are updated to reflect the changes to the property and the difference in taxes for those years is billed to the owner.

**<u>State Agencies Affected:</u>** Department of Local Government Finance.

**Local Agencies Affected:** County auditors; Local assessors; County and municipal fiscal bodies; Local civil taxing units and school corporations; Townships; Redevelopment Commissions.

**Information Sources:** Local Government Database.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.